

Federal Budget Update 2019-20

Budget Update

Release Date | 3 April 2019

INTRODUCTION

This year's Federal Budget is a little unique in that it has been brought forward to the beginning of April, instead of being delivered in May. This is to accommodate a Federal Election that is expected to be held in mid-May 2019.

Being an 'Election Budget' we expected the Budget would contain measures that will keep potential voters favourably disposed towards the current Morrison LNP Government.

So, what did the Budget contain?

Most of the 'big ticket items' had been either announced or alluded to in the lead up to the Budget. After reading through the Budget Papers, there was not a lot of new information to be gleaned.

Our analysis looks at a number of key areas including the state of the economy, the fiscal outlook, and various superannuation and welfare measures.

It goes without saying the Budget announcements mentioned in this update will only come into effect once the necessary legislation has been passed through the parliament.

THE ECONOMY AND FISCAL OUTLOOK

For the first time in 12 years, Australia is expected to move back into surplus in the 2019-20 financial year with a budgeted surplus of \$7.1 billion. In fact, the budgeted surplus over the next four years is projected to be \$45 billion. This represents a significant turnaround in the nation's financial wellbeing.

TAXATION

The Budget contained taxation 'sweeteners' for individuals and small-to-medium businesses. This was not unexpected.

1. Personal income tax

- Low to middle income earners will benefit from an increase in the Low and Middle Income Earners Tax Offset (LMITO). This will apply to the current 2018-19 financial year and will be received once income tax returns are lodged from 1 July 2019. LMITO is scheduled to continue to be available until 30 June 2022.

The full benefit of LIMTO can be seen in the following table:

| Taxable Income (TI) | LMITO |
|---------------------|--|
| \$0 - \$37,000 | \$255 |
| \$37,001 - \$48,000 | \$255 + $([TI - \$37,000] \times 7.5\text{cents})$ |

| | |
|----------------------|--------------------------------------|
| \$48,001 - \$90,000 | \$1,080 |
| \$90,001 - \$125,999 | \$1,080 – ([TI - \$90,000] x 3cents) |
| \$126,000 and over | Nil |

- From 1 July 2022, the Low Income Tax Offset (LITO) will increase from \$645 to \$700.
- The upper threshold for the 19% income tax bracket will increase to \$45,000 (from \$41,000) from 1 July 2022.
- The 32.5% tax rate will reduce to 30% from July 2024 and the 37% tax rate will be abolished, also from 1 July 2024. This has previously been legislated.
- From 1 July 2024, 94% of Australian taxpayers will have a personal tax rate of 30% or less.
- For those wishing to make tax deductible gifts, a number of new charities have been added to the deductible gift recipients list including Men's and Women' Sheds which will become eligible for deductible gift status from 1 July 2020.
- For the 2018-19 financial year, the Medicare Levy low-income threshold will increase marginally:

| Category | Low Income Threshold | Increased from |
|--|----------------------|----------------|
| Singles | \$22,398 | \$21,980 |
| Family with no children | \$37,794 | \$37,089 |
| Each dependent child | \$3,471 | \$3,406 |
| Singles Seniors and pensioners eligible for SAPTO ¹ | \$35,418 | \$34,758 |
| Seniors and pensioner couples eligible for SAPTO | \$49,304 | \$48,385 |

2. Small to medium businesses

- The instant write-off that has previously been available to small businesses will be extended to medium businesses. A medium business is one with turnover of between \$10 million but less than \$50 million.
- The threshold for the instant write off will increase from the current \$25,000 to \$30,000 per asset.
- For small businesses, these changes will apply to assets first used, or installed for use between 2 April 2019 and 30 June 2020. For medium size business the asset must be acquired after 2 April 2019 and be first used, or installed ready for use by 30 June 2020.

¹ Seniors and Pensioners Tax Offset

3. Tax integrity

- The Australian Taxation Office is to be given a further \$1 billion over 4 years from 2019-20 to combat tax avoidance by large corporations, multinationals, and high wealth individuals.

SUPERANNUATION MEASURES

Superannuation was largely untouched by the Budget, however there were a couple of measures announced that will appeal to older Australians.

1. Removal of the work test – for some

Under current superannuation law, a person wishing to make voluntary after-tax (non-concessional) or personal tax deductible contributions to super must meet a work test if they are aged from 65 to 74.

This work test prescribes a person be gainfully employed, or self-employed for a period of at least 40 hours, worked within 30 consecutive days in the financial year in which they intend to make their contribution to super.

To better align superannuation contributions with the eligibility age for the age pension, the government has announced that the work test requirement will no longer apply to people aged 65 or 66.

This measure is due to take effect from 1 July 2020.

2. Extending the age limit for spouse contributions

When a person makes a contribution to super for an eligible spouse, the contributing spouse may be entitled to receive a tax offset of up to \$540.

However, the tax offset is currently only available where the receiving spouse is under 70 years of age.

The Budget announcement proposes to increase the age limit to 74.

The usual conditions attaching to spouse contributions will remain. These include:

- The receiving spouse must meet the work test (if aged 67 or older) and have an income²² of less than \$40,000. The offset is reduced when income exceeds \$37,000,
- A tax deduction is not being claimed for the contribution,
- The receiving spouse has not exceeded their non-concessional superannuation cap, and
- The receiving spouse's total superannuation balance (as at the previous 30 June) is less than \$1.6 million.

This measure is due to take effect from 1 July 2020.

²² Assessable income + reportable fringe benefits + reportable employer superannuation contributions

3. Calculating Exempt Current Pension Income

- Trustees of self-managed super funds with member's in both accumulation and retirement phases will be able to choose their preferred method for calculating their fund's exempt current pension income.
- The requirement to obtain an actuarial certificate is to be removed for funds using the proportionate method where all members are in the retirement phase for the entire financial year.
- These initiatives, designed to streamline the operation of self-managed super funds, are to apply from 1 July 2020.

HEALTH AND WELFARE MEASURES

1. Energy Assistance Payment

Many would argue that energy costs in Australia are very expensive.

To help approximately 3.9 million Australians meet their energy costs, the Government will make a one-off payment of \$75 for singles, and \$125 for couples.

This payment will be made to:

- Age pensioners
- Recipients of a Disability Support Pension
- Carers receiving the Carer Payment
- Single recipients of a Parenting Payment
- Veterans and their dependants receiving eligible payments for the Department of Veterans' Affairs.
- Newstart recipients

The payment will be tax free and is expected to be made before 30 June 2019.

2. Commonwealth Home Support Programme to be extended

An injection of \$5.9 billion will be made over two years from 2020-21 to support the Commonwealth Home Support Programme which provides essential services including meals (e.g. Meals on Wheels), personal care, nursing, domestic assistance, home maintenance and community transport to older Australians wishing to continue to live independently.

3. Improved quality, safety and accessibility of aged care services

Funds have been allocated in the Budget to support a range of aged care related activities including:

- A one-off increase to the basic subsidy for residential aged care
- The allocation of 10,000 additional home care packages, and a further 13,500 residential aged care places
- An increase to dementia and veterans home care supplement to support home care recipients.

4. Health services

- \$1.1 billion has been allocated from 2018-19 over a five-year period to support primary health care and improve frontline health services.
- Funding is provided to support a range of initiatives providing diagnosis, treatment, therapy and support for cancer patients and their families.
- A range of new medicines have been added to the Pharmaceutical Benefits Scheme allowing patients to access previously very expensive drugs at heavily subsidised prices.

CONCLUSION

The Budget contained literally hundreds of measures. It is not possible to address each measure in detail in a document like this.

Suffice to say, there is funding for education, skills development and new apprenticeships, job creation, Queensland flood relief for primary producers, funding for the Government's response to the recent Banking Royal Commission, and significant money for roads, rail and infrastructure.

This was very much a pre-election Budget.

The challenge for the Government will be to get the relevant Budget legislation passed within a matter of days, then move into election mode.

If nothing else, the next few months will be interesting to say the least.

Disclaimer:

The content of this document is of a general nature only, and does not take into account your personal objectives, financial situation and/or needs. Accordingly; the information should not be used, relied upon, or treated as a substitute for specific financial advice. While all care has been taken in the preparation of this material, no warranty is given in respect of the information provided and accordingly neither Centrepoint Alliance Limited nor its employees or agents shall be liable on any grounds whatsoever with respect to decisions or actions taken as a result of you acting upon such information.